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Annual Report

SAFEWAY STORES

INCORPORATED

YEAR ENDED DECEMBER 31

1947

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ANNUAL REPORT

SAFEWAY STORES

INCORPORATED

Table of Contents

REPORT TO THE STOCKHOLDERS

Sales and Profits 3
Safeway's Record—in Brief 4
Financial Position 5
Sales, Average Number of Stores (and Meat Sections) in Operation (1938-1947) 5
Total Sales (1938-1947) 6
Comparison of Earnings before Taxes and Distribution between Taxes, Dividends and Surplus (1938-1947) 6
Capital and Surplus, Book Value, Dividends and Earnings per Share (1938-1947) 7
What Happened to Safeway's 1947 Sales Dollars? 8

1947 ACCOMPLISHMENTS

Operations
Pricing 9
Supply and Service Departments 10
Facilities 10
Inventories 11
Storage and Processing 12
Canadian Reporting 13
Employee Retirement Plan 13
Facilities at the End of the Year 14

Personnel
Employees as Citizens 14
Employees' Associations 15
Contingent Compensation 15

PLANS FOR 1948

General 16
Improvements in Store Facilities and Equipment 16
Employee Training 17
Processing Operations 17
Canadian Reorganization 17
"No Job has a Future—Only People Have" 18

FINANCIAL STATEMENTS

Safeway Stores, Incorporated 20
Cortland Equipment Lessors, Incorporated 24
Salem Commodities, Incorporated 26
Canada Safeway Limited 28
Executive Officers and Directors 31

SAFEWAY IN OPERATION

Map of Safeway Stores in United States and Canada 32
"Safeway Stores are Near Their Customers" 34
"Safeway's Operating Policies Lead to More Food for More People" . . . 36

Note: Reorganization during 1947 has resulted in treatment of the Canadian holdings of Safeway Stores, Incorporated, in this Report, as investments. Statistics in some charts and tables reflect only United States operations of the company, and are so identified. A separate Financial Statement for Canada Safeway Limited will be found on page 28.

REPORT OF PRESIDENT LINGAN A. WARREN TO THE STOCKHOLDERS

This Report to the Stockholders covers the operations of your company and its consolidated subsidiaries during the year 1947. The interests of your company in its Canadian subsidiaries, in Cortland Equipment Lessors, Incorporated, organized in 1945 to finance the purchase of fixtures and equipment, and in Salem Commodities, Incorporated, organized in 1947 to finance the purchase of reserve and processing stocks of merchandise have been treated as investments and the results of their operations have not been included in the Consolidated Financial Statements. However, financial statements for the subsidiaries omitted from the Consolidated Balance Sheet have been bound with this report for your information.

Sales and Profits

The net sales of your company in the United States and Canada during 1947 were $1,117,065,371.39, an increase of $269,609,846.84 over the sales for the same operations in 1946. The United States sales of your company and its consolidated subsidiaries (excluding Canada) were $1,037,796,658.96 in 1947, an increase of $252,222,338.94 or 32.11% over the United States sales in 1946. The United States sales of your company and the number of stores and meat sections operated by it in the United States during each of the last ten years are shown in the table which appears on page 5.

The chart set out on page 6 gives a comparison by years of the total United States sales of your company during the last ten years.

Safeway's Record – in Brief

(UNITED STATES ONLY)

	1947
Net Sales	$1,037,796,659
Cost of Merchandise Paid Out to Farmers and Other Suppliers of Goods	$866,118,698
Net Total of Wages and Operating and Administrative Expenses, Rental of Equipment, Provision for Depreciation, Other Income, Other Charges, Provision for Taxes on Income	$163,575,497
Net Profit	$8,102,464
Dividends to Preferred Stockholders	$996,040
Dividends per Share to Preferred Stockholders	$5.00
Net Profit Applicable to Common Stock	$7,106,424
Net Profit Applicable to Common Stock per Share*	$2.76
Dividends to Common Stockholders	$2,570,647
Dividends per Share to Common Stockholders	$1.00
Number of New Stores Opened During the Year	28
Number of Stores Closed During the Year	48
Number of Stores in Operation at End of Year	2,252

*Based on average number of shares outstanding during the year.

The net income of your company and its consolidated subsidiaries for the year 1947, after provision for United States taxes on income, adequate depreciation, equipment rental, interest and other charges shown in the Statement of Profit and Loss amounted to $8,102,463.87 as compared to $11,413,626.20 in 1946. The provision for United States taxes on income for the year 1947 is in the amount of $4,316,000.00. Dividends of $996,040.00 were paid on the preferred stock during the year.

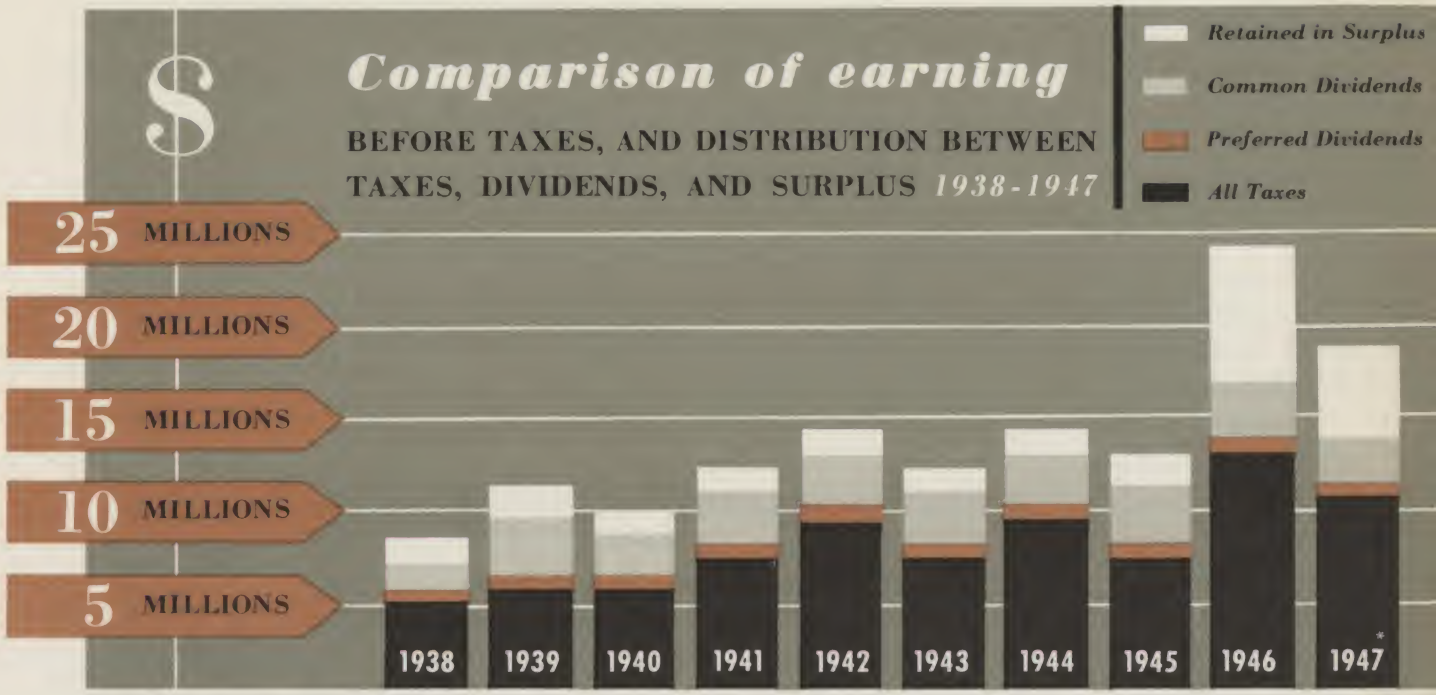
After providing for United States taxes on income and preferred dividends, the earnings of your company applicable to common stock were $2.76 per share on 2,570,647 shares, the average number of shares of common stock outstanding during the year. Dividend requirements on the average number of shares of preferred stock outstanding during the year were earned 8.13 times.

Financial Position

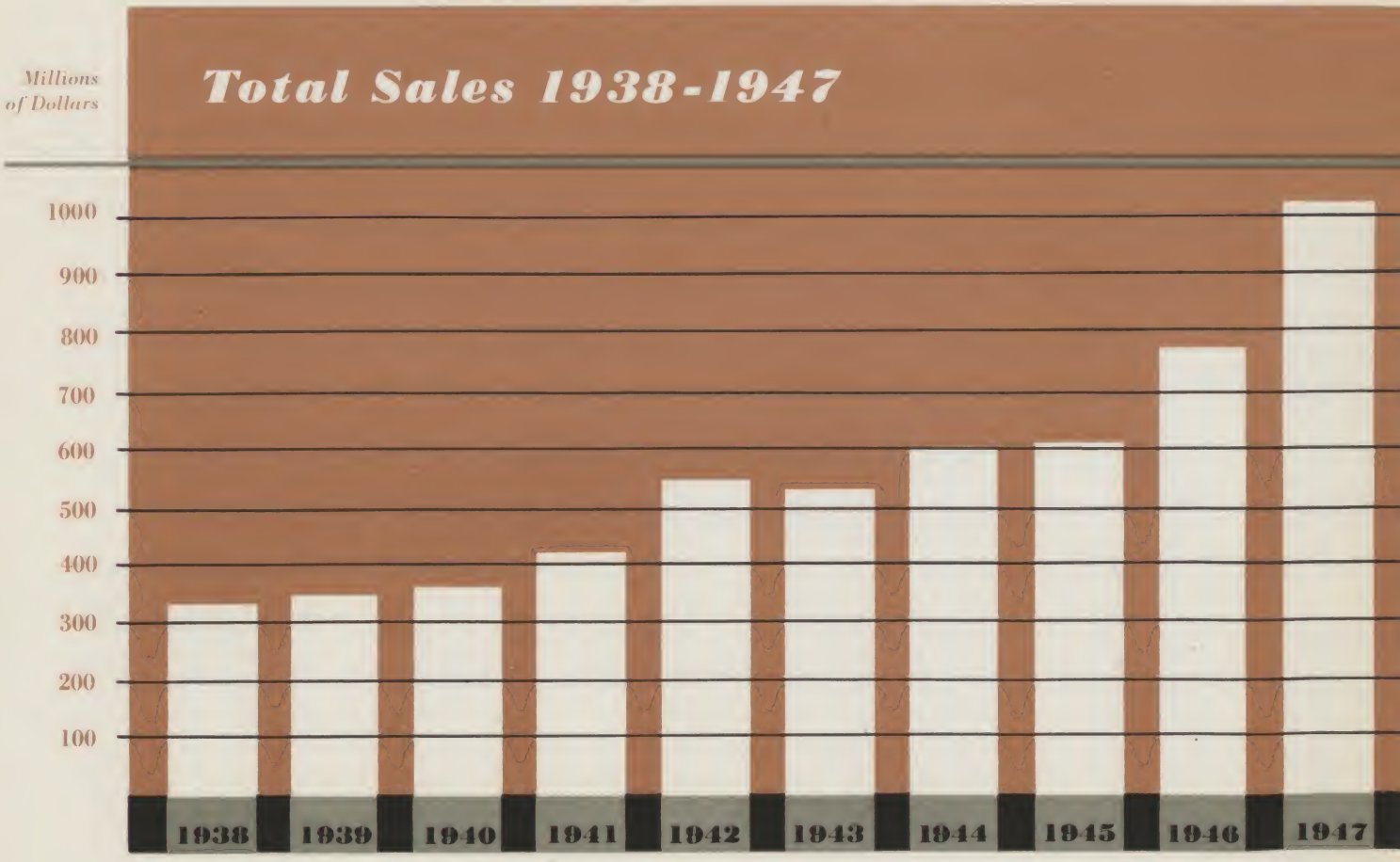
The total net assets of your company and its consolidated subsidiaries as of December 31, 1947 were $75,947,136.12. On the same date the total current assets of your company and its consolidated subsidiaries

Sales AVERAGE NUMBER OF STORES (AND MEAT SECTIONS) IN OPERATION (United States Only) *1938-1947*

	Sales	*Grocery Stores*	*Meat Sections Located in Grocery Stores*
1938	$333,360,406	2,977	2,503
1939	346,939,444	2,749	2,454
1940	357,890,307	2,484	2,339
1941	427,447,462	2,504	2,321
1942	562,095,325	2,552	2,348
1943	546,508,054	2,352	2,277
1944	609,552,384	2,322	2,261
1945	615,111,449	2,312	2,246
1946	785,574,320	2,287	2,235
1947	1,037,796,659	2,260	2,181



*Excluding Subsidiaries not Consolidated.



amounted to $99,114,718.59, while total liabilities, including term bank loans of the company and its consolidated subsidiaries, amounted to $58,684,501.25. The ratio of current assets to current liabilities as reflected by the Consolidated Balance Sheet was 2.56 to 1.

The year 1947 completed twenty-two consecutive years of uninterrupted dividend payments by your company on its common and preferred stocks. The capital and surplus of your company, the net assets per share of preferred stock, the book value of the common stock and the dividends and earnings per share of common stock for the last ten years are shown in the table given below. The book value of common stock is computed without deducting the premium of $10.00 per share to which the preferred stock is entitled upon voluntary or involuntary liquidation. The number of shares outstanding at the end of the year has been used in determining book values and the average number of shares outstanding during the year has been used in computing earnings.

Capital and Surplus

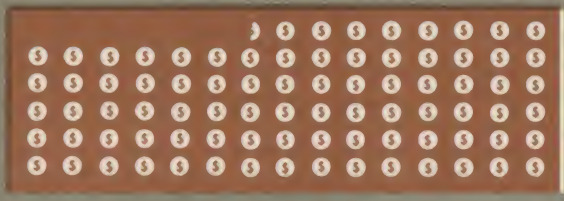
BOOK VALUE, DIVIDENDS AND EARNINGS PER SHARE *1938-1947*

	Capital and Surplus	*Net Assets Per Share of Preferred Stock*	*Book Value Per Share of Common Stock**	*Dividends Paid Per Share of Common Stock**	*Net Earnings Per Share of Common Stock**
1938	$48,407,475	$314	$13.84	$0.67	$1.34
1939	51,075,334	308	14.26	1.50**	2.20
1940	53,286,166	287	14.38	1.17	1.59
1941	60,007,566	270	14.87	1.17	1.64
1942	60,154,048	280	15.23	1.00	1.35
1943	61,453,200	288	15.78	1.00	1.56
1944	62,564,498	299	16.40	1.00	1.63
1945	63,604,685	311	16.97	1.00	1.59
1946	71,901,081	359	20.18	1.00	4.09
1947***	75,947,136	388	21.92	1.00	2.76

*Number of shares for each year adjusted to reflect 3-for-1 stock split-up effected April 12, 1945.
**Paid in part in five percent preferred stock.
***Excluding subsidiaries not consolidated.

What happened to Safeway's 1947 sales dollars?

$100.00 TAKEN IN BY SAFEWAY STORES, INCORPORATED WAS PAID OUT AS FOLLOWS



$83.46	Paid Out to Farmers and other Suppliers of Goods
$9.93	Paid Out in Salaries, Wages and Bonuses
$4.24	Paid Out for Operating Supplies and Other Expenses
$1.04	Paid Out for All Local, State and Federal Taxes
.78	Profit for Stockholders and Surplus
.48	Set Aside to Cover Depreciation and Rental of Equipment
.07	Paid Out as Compensation to Elected Officers

1947 Accomplishments

OPERATIONS

Pricing

The normal competitive conditions which existed in the retail food business during 1947 emphasized the importance and value of Safeway's historical policy of meeting all competitive prices item-by-item, day-by-day in each of the trading areas of its stores. This policy enables the customers of your company to purchase all of their food requirements in Safeway stores at as low a price as they can be obtained anywhere in the trading area. However, it does not mean that your company advocates below cost or loss leader selling or the use of unreasonably low prices. Instead, the policy recognizes and is designed to meet the following factors which your management feels are essential to the operation of a successful retail business:

The maintaining of prices which will yield a reasonable profit:

The maintaining of a reasonable mark-up over landed warehouse cost on all fruits and vegetables except where a lower mark-up is necessary to meet competition or to move distressed merchandise:

The sharing with customers of savings resulting from its way of doing business:

The meeting of the lowest competitive price in each trading area, item-by-item and day-by-day:

The observance of the letter and the spirit of laws which make it illegal to cut prices with an intent to injure or destroy competition:

Strict adherence to this policy creates strong customer loyalty, detracts from the effectiveness of competitors' special price and loss leader advertising and does away with the need for expensive campaigns to regain sales volume. The public's acceptance of this policy is evi-

denced by the increased sales enjoyed by your company during 1947. Dollar sales of your company and its consolidated subsidiaries in the United States in 1947 were $252,222,338.94 in excess of 1946 sales, while the tonnage handled was approximately 12.88% in excess of that handled during 1946.

The renewed demand of the public for prompt, courteous service and a chance to purchase its food requirements at a reasonable price, provides an opportunity for your company to increase its business and strengthen its position in the retail food field. Food retailers who have failed to recognize the postwar change in the public's attitude have already suffered a loss in business and many of them have reverted to loss leader selling. Increased unit sales should result in operating costs low enough to permit your company to meet these conditions and to compete on favorable terms with any of its competitors.

Supply and Service Departments

During 1947 your company continued its program of using decentralized free-standing departments (called "companies") in its supply and service operations. These companies, which act as specialists in their fields have proven their value to your company. The service companies insure competent handling of the store research, construction, employee training and other programs so necessary to your company's business. The supplier companies make it possible to maintain a close check on quality, price and inventory conditions and enable your company to purchase merchandise for its retail stores on a nation-wide basis, thereby taking full advantage of all favorable supply and price situations.

Facilities

Your management has postponed any intensified resumption of its "buy-build-sell-lease" real estate program because of excessive building costs.

Your company has, however, continued to a limited extent, to purchase sites for retail store buildings and plant facilities. These sites and those previously acquired will permit your company to resume its "buy-build-sell-lease" program as soon as building costs are stabilized to a point where this becomes advisable. The sites acquired are being

sold to investors with a lease back to the company under an arrangement which gives the purchaser of the site the first opportunity to acquire the improvements constructed thereon.

During 1947 your company constructed or extensively remodeled 15 store buildings in the United States at locations where construction at the present excessive costs could be justified by business prospects. In addition, it leased 13 retail store locations in existing buildings in the United States. At the end of the year your company held 233 retail store sites and 24 plant and warehouse sites in the United States upon which it plans to construct facilities in the future.

Improved supply conditions during 1947 enabled your company to discontinue the operation of all meat slaughter plants acquired during the war except those located at Omaha, Nebraska, Sacramento, California, San Francisco, California and Los Angeles, California. The slaughter plant facilities at Seattle, Washington, El Paso, Texas, Dallas, Texas and Phoenix, Arizona were remodeled and converted into meat distribution warehouses. The balance of the plants which were closed were sold to outside purchasers. Temporary meat distribution warehouses for use until building conditions permit the construction of permanent facilities have been acquired at Portland, Oregon, Jersey City, New Jersey and Butte, Montana. It has been the policy of your company for many years to sell properly aged meats, with a customer satisfaction guarantee. These additional meat distribution warehouses will help to insure an adequate supply of properly aged, quality controlled meats, for the retail meat sections in Safeway stores.

Inventories

During the year 1947 your company enjoyed a substantial gain in both dollar and tons of merchandise sold. While inventories were kept at the lowest possible minimum consistent with good business judgment the increase in sales made it necessary to maintain an inventory with a high dollar value in order to keep the supply lines to the retail stores in continuous operation. However, notwithstanding the high dollar value of the inventory, the ratio between inventory and sales is very favorable. The year-end inventory of $99,659,058.57, which

includes the combined inventories of your company, its consolidated subsidiaries and subsidiaries not included in the Consolidated Financial Statements represents only a 5.6 weeks' supply for your company's retail stores. If inventories of new processing and storage operations are eliminated, the ratio of the inventory to sales will be substantially less than that which was in effect during the pre-war periods.

It is the policy of your company to purchase merchandise as needed and to avoid large future commitments wherever conditions permit. It is planned to continue to operate under this policy until price and supply conditions become more stabilized. However, present inventory values cannot be reduced in any substantial amount as long as food prices continue at their present level without jeopardizing the present high sales volume of the retail stores.

Your management realizes that it will be impossible to avoid all inventory losses when food prices drop. However, the inventory controls which have been placed in effect, together with your company's fast turn-over of merchandise should hold inventory losses to a minimum.

Storage and Processing

Your company completed arrangements with seven of its credit banks on August 7, 1947 for the financing of reserve and processing stocks of merchandise. This financing plan (which was referred to in the 1946 Annual Report) insures bank financing for the reserve and processing inventories of your company at a reasonable cost. The plan provides for the purchase of merchandise by Salem Commodities, Incorporated, a wholly owned subsidiary, with funds obtained through this financing program, for the processing and storage of this merchandise by that corporation and for the subsequent sale of such merchandise to the parent company. The financing plan provides for borrowings from commercial banks under loan agreements which commit the banks from year to year, but which permit the repayment of loans by Salem Commodities, Incorporated whenever it has excess funds available for this purpose. It is believed that this decentralized operation will permit your company to enjoy benefits similar to those obtained from its fixture and equipment financing plan.

Canadian Reporting

During 1947 your company completed a substantial part of the plan of reorganization for its Canadian business. Your management has desired for several years to give these operations an independent status and to interest the Canadian public in the ownership of their non-voting securities. Canadian wartime restrictions delayed the start of the reorganization for several years. However, in 1947 Canada Safeway Limited sold 20,000 shares of $100 Par Value 4½% Preferred Stock and $3,000,000.00 in principal amount of debentures to Canadian purchasers. The funds obtained through the sale of these securities will furnish the operating capital needed by Canada Safeway Limited (formerly Safeway Stores Limited), to carry on the Canadian operations. Your company's investment in Canada increased substantially during the war period because of Canadian exchange restrictions. To date this reorganization has enabled it to reduce this investment to $4,340,777.40. The program calls for the reduction of this investment by an additional $1,500,000.00.

Canadian Foreign Exchange Control restrictions have required that $4,278,209.28 from the amount payable to your company as a result of this reorganization be held for it in a trust account. The trust funds will be available to your company when the exchange restrictions are modified so as to permit the return of the money to the United States. The Canadian holdings of your company are now treated as investments and the results of their operations have been omitted from the Consolidated Financial Statements included in the Report, except to the extent that the dividends received or to be received were declared out of the current earnings of such operations for the year 1947.

Employee Retirement Plan

The Canadian subsidiaries of your company adopted a retirement plan for their employees during 1947 which is similar to the one set up in 1946 for the United States employees of your company and its subsidiaries. It is believed that the plan will be of substantial and permanent value to the operations in Canada as it should reduce employee turn-over and enable the Canadian companies to compete on an equal basis with other companies for high caliber employees. The 1947 cost of the Canadian plan (including contributions for both past

and current service) was $35,355.00. It is estimated that the cost of the plan will be $141,423.00 in 1948.

Facilities at the End of the Year

During 1947 a total of 28 retail stores and 37 meat sections were opened, and 48 retail stores and 44 meat sections were closed in the United States. In addition Canada Safeway Limited opened 3 retail stores and 3 meat sections, and closed 3 retail stores and 3 meat sections in Canada. In accordance with company policy the expense of closing all stores vacated and the unamortized value of lease-hold improvements on these stores was charged against current earnings. Lease-hold improvements on continuing stores are being charged off on an amortized basis.

At the end of the year your company had in operation 2,252 retail stores in which were located 2,216 meat sections, in the United States. In addition, your company and its subsidiaries operated 26 principal warehouses, 20 produce warehouses, 14 bakeries, 6 fluid milk plants, 6 coffee roasting plants, 8 meat distribution warehouses, 4 meat slaughter plants, 4 dressing plants, 6 butter plants, 11 cheese factories, a cracker bakery, a cooky bakery, a gelatin dessert plant, an evaporated milk plant, a candy factory, a wine bottling plant, a fruit and vegetable cannery, and a soft drink plant in the United States. On the same date your Canadian subsidiaries operated 141 retail stores, all of which contained meat sections, 12 principal warehouses, 2 produce warehouses, 3 bakeries, a fluid milk plant, a coffee roasting plant, and a jam and jelly plant in Canada.

P E R S O N N E L

Employees as Citizens

The employees of your company continued during 1947 to take an active interest in the affairs of the communities in which they reside. The following are examples of their activities:

A store manager in Nebraska was elected president of his Lions Club.

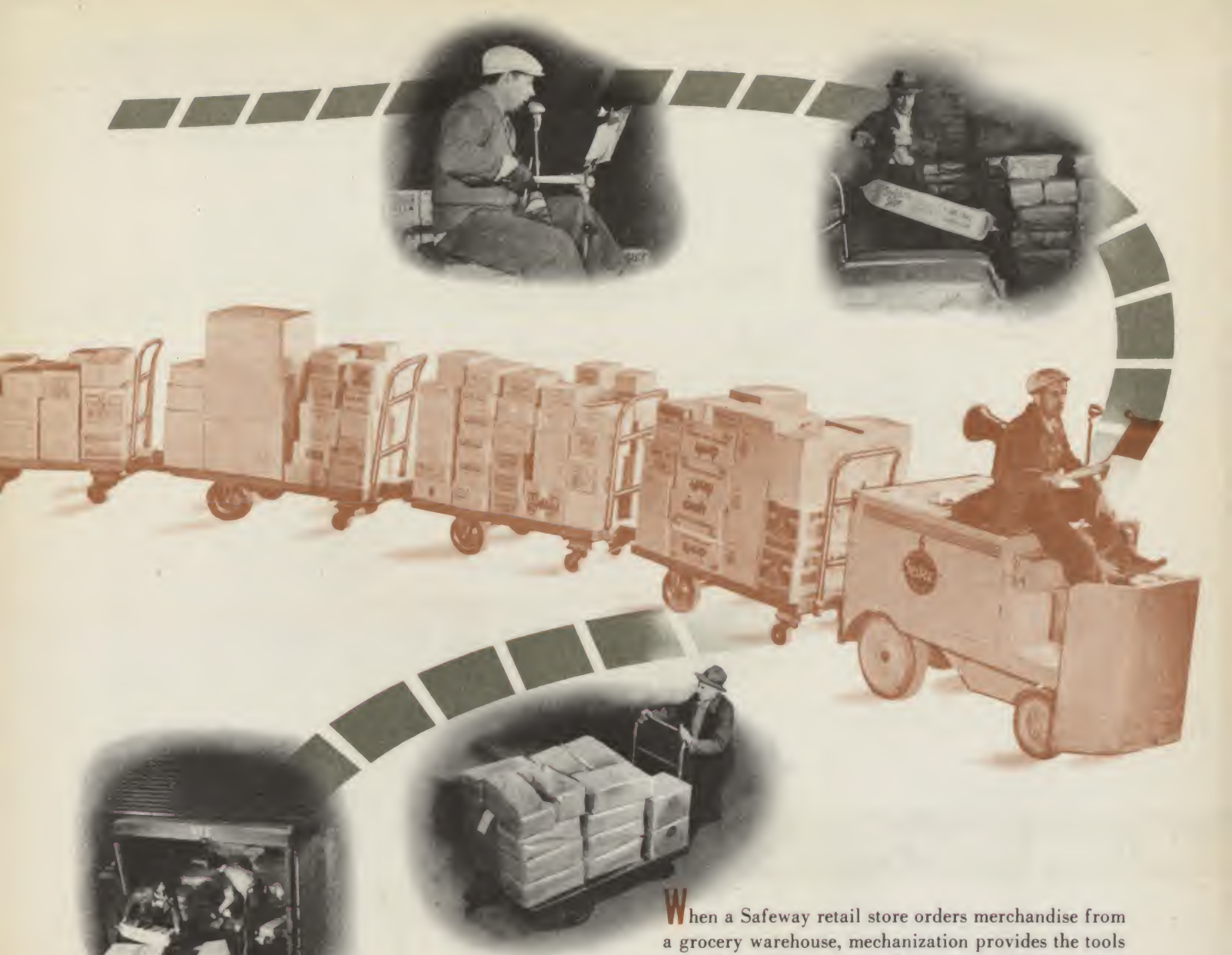
A meat cutter in Colorado was elected State Representative.

A store manager in Kansas was elected president of his community's Junior Chamber of Commerce.

A district manager in Oregon was elected president of his Shrine Club.

LEAD TO MORE FOOD FOR MORE PEOPLE

controlled rooms for such purposes as ripening bananas. In meat warehouses, every cut of meat is properly aged, and trimmed of excess bone and fat. Grocery warehouses are mechanized to the utmost degree consistent with efficient operation (for example, lift truck on this page and typical operating scenes on the page following).



When a Safeway retail store orders merchandise from a grocery warehouse, mechanization provides the tools for efficient assembly and shipment of the order. Throughout, the plan of supply aims to handle minimum quantities that will keep the stores adequately stocked.

Trucks owned and operated by Safeway Stores, Incorporated, move merchandise from warehouses to the retail stores. Equipment moving meats and dairy products is refrigerated; other trucks are specialized for the transportation of groceries and bakery products. In all cases, routes are laid out to effect minimum transportation expense per unit.

At the retail location, the store manager is in charge. His responsibilities include well-planned ordering of supplies, keeping the sales-room shelves and center fixtures and meat counter and produce bins generously stocked, maintaining prices in line with the lowest competition, supervision of all store personnel. The entire Safeway policy of reducing the cost of food distribution fails in the individual retail store unless the store manager is a skilful executive. Therefore Safeway trains its retail personnel thoroughly, rewards its best men with store managerships.

In the Safeway retail store, fresh produce is displayed for customers' inspection, convenience, and personal selection. Safeway's policies of self-service and pricing by weight let the customer buy fresh produce to her exact requirements; she is assured of full value.

Safeway customers get the benefit of the company's policy of waste-free trimming before meat is weighed. Generous displays give them full choice of cuts. Company policy is to sell only beef that is U.S. Government graded.

Buying coffee, for example, Safeway customers have a choice between nationally-advertised brands, those with regional popularity, and the company's own Sponsored Brands. Throughout the retail store, the Safeway policy calls for retailing food and related items at minimum prices consistent with reasonable profit.

At the check stand in a Safeway retail store, a customer's purchases are rapidly totted up under the cash-and-carry self-service policy of Safeway, and the customer goes home confident that she has bought her family's food at the best available prices.

Final proof comes with satisfaction at the customer's family dinner. At a Safeway store, the housewife has bought food of the quality and price desired—often at less than she could have bought it elsewhere. The net result is not only customer satisfaction, but—because of lower costs of food distribution—more and better food for more people.

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